LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 548** SLS 12RS 399
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: March 27, 2012 11:23 AM **Author:** RISER
Dept./Agy.: Economic Development / Revenue
Subject: Enhanced Quality Jobs Payroll Subsidy **Analyst:** Deborah Vivien

ECONOMIC DEVELOPMENT EG DECREASE GF RV See Note

Creates the Competitive Projects Payroll Incentive Program which grants rebates of up to 15% of qualifying payroll to certain businesses and rebates of sales tax or capital expenditures if DED determines it will result in significant positive economic

Proposed law creates the Competitive Projects Payroll Incentive Program (CPPIP) which is essentially an expansion of the existing Quality Jobs Program (for select industries: up to 6% payroll subsidy based on minimum wage levels plus sales tax rebate or 1.5% investment reimbursement). This bill targets the business activities of headquarters, clean technology, next generation automotive, aerospace, destination healthcare, R&D, pharmaceutical, renewable energy, and any other business sector LED wants to focus on. Certain businesses are excluded unless they qualify 25 headquarters or shared services jobs. At least 50% of business sales must ultimately be to out-of-state buyers or the federal government. These selected businesses can receive a payroll subsidy up to 15% (plus sales tax rebates and investment reimbursements comparable to current law program). Contracts can run for 10 years as in current law program (5yrs initial, 5yrs renewed). Basic health insurance is required (as in current law program) but no minimum wage levels are required (as they are in current law program). Application is by invitation. Effective July 1, 2012. No new contracts can be entered after June 30, 2017.

EXPENDITURES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	INCREASE	INCREASE	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**			**$0**

REVENUES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

Since the program is offered at the discretion of LED, it is anticipated that initial LED administrative costs will fall within its current budget. However, as business participation accumulates in the program, a growing number of firms will have annual certifications being processed. Meaningful compliance enforcement should eventually require additional resources in LED.

REVENUE EXPLANATION

The bill creates a program that essentially allows LED to grant enhanced Quality Jobs payroll subsidies (up to 15% rather than up to 6%) to selected businesses. These state expenditures are determined by LED and paid by LDR from all current tax collections imposed by Title 47 before deposit in the state treasury. Little or no FY13 effects are assumed, although it is possible that some costs could be realized in FY13.

LED presented a numerical exercise of expected implementation of the program. LED expects payroll subsidies under the proposed bill to range from 8% - 15%, which are 2% points - 9% points greater than the 6% offered in most current law Quality Jobs contracts (sales tax rebates and investment reimbursements are identical, and do not impact the exercise). LED also assumed the enhanced subsidy will be utilized on 5% - 15% of the jobs qualifying for the current QJP subsidy with participating jobs/payroll accumulating each year. Program cost results are based on the increased subsidy rate only. Resulting state expenditures are $1 million in FY14, $2m FY15, $3 FY16, and $5m in FY17.
The LED exercise also included gross and net fiscal impact results assuming 7% of earnings/payroll are paid in all state taxes. Gross state tax results are $3m in FY14, $8m FY15, $14m FY16, and $25m in FY17; net state fiscal results are $2m in FY14, $6m FY15, $11m FY16, and $19m in FY17.

The LED exercise implicitly assumes that each project occurs only as a result of the benefit provided by this bill, even though this bill's benefit will likely be one of a variety of benefits offered the project. This is a strong assumption, and means that the return on investment analysis called for in the bill always begins in a positive position from which benefited costs are deducted. Along more technical lines, the standard economic multipliers utilized in this type of analysis overstate true economic impacts by not reflecting business and consumer wage & price responses and substitution effects. Also, the targeted business sectors or activities are not objectively defined, allowing substantial analytical discretion for LED. In addition, the analysis is incomplete in that it does not include a governmental balanced budget requirement. The program's benefits reduce resources supporting government purchases in the economy with resultant negative multiplier effects, offsetting the positive effects from the targeted project spending. The program is ultimately a cost to the state fisc incurred to engage in governmental economic development activity.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[x] 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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